DoD Pharmacoeconomics
&
Pharmacy Benefit Conference

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Overview

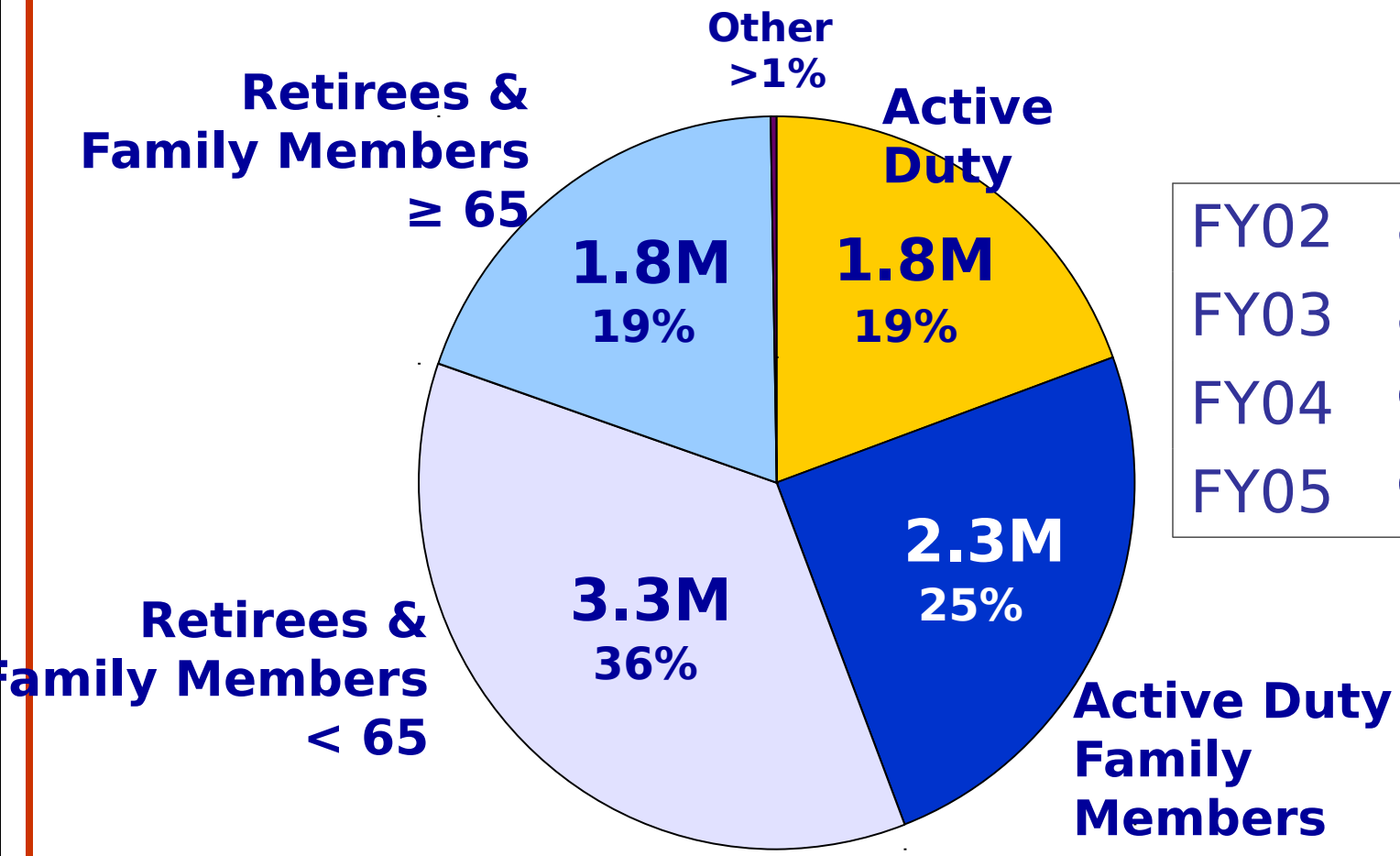
- DoD Pharmacy Benefit
  - Demographics
  - Utilization
  - Structure
- DoD Pharmacy Costs
- Pricing Differences
- Optimized Distribution Model
- Uniform Formulary: Points and Process

DoD Pharmacy Program Objectives

- Uniformly, consistently, and equitably provide appropriate drug therapy to meet patients' clinical needs in an effective, efficient, and fiscally responsible manner
- Provide a World-Class Pharmacy Benefit with a seamless interface between all three points of service

TRICARE Eligible Beneficiaries

Monthly Average, FY05



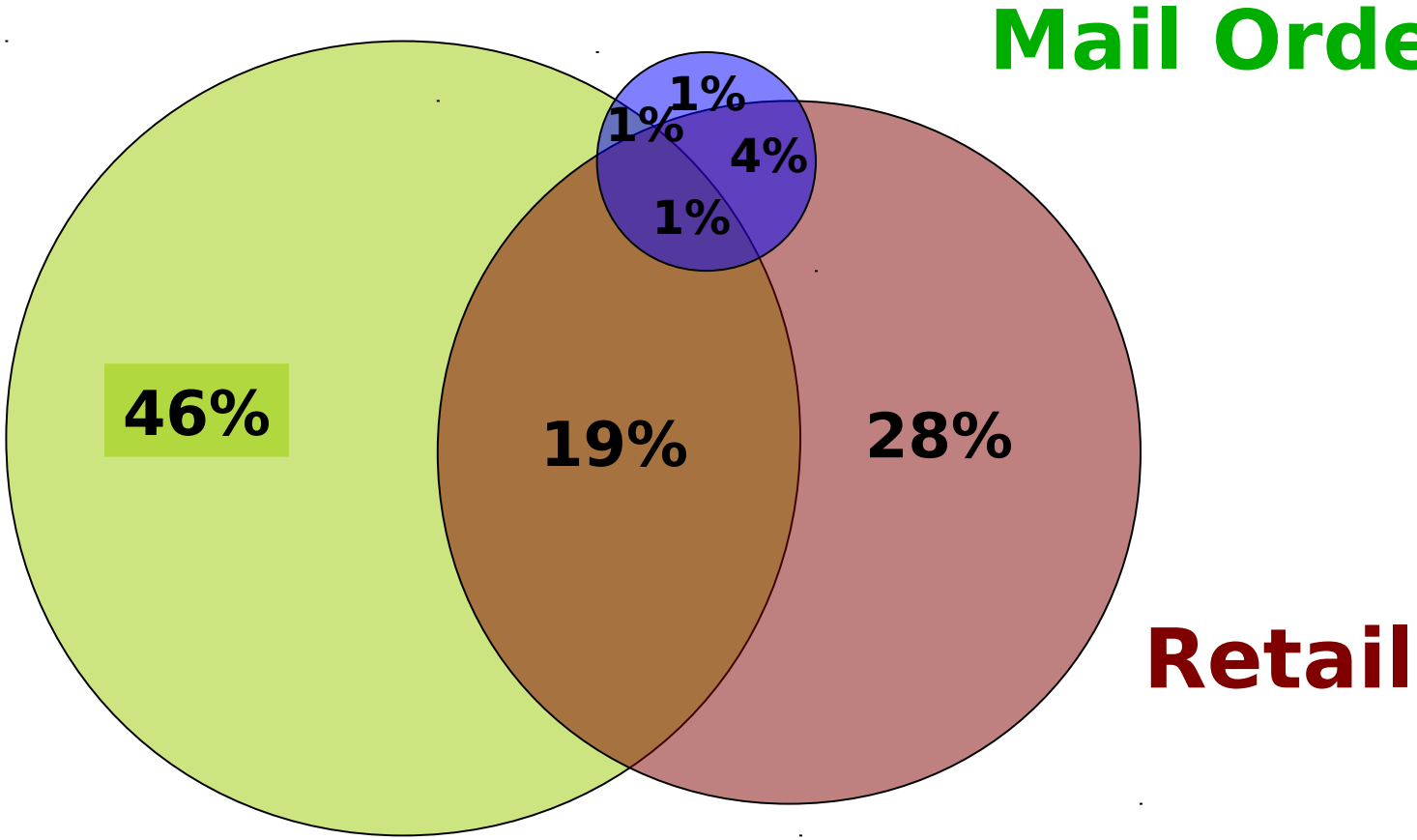
FY02	8.6 Million
FY03	8.9 Million
FY04	9.1 Million
FY05	9.2 Million

Source: M2

Unique Users by Point of Service

All Ages, FY05

Unique Users = 6.6M

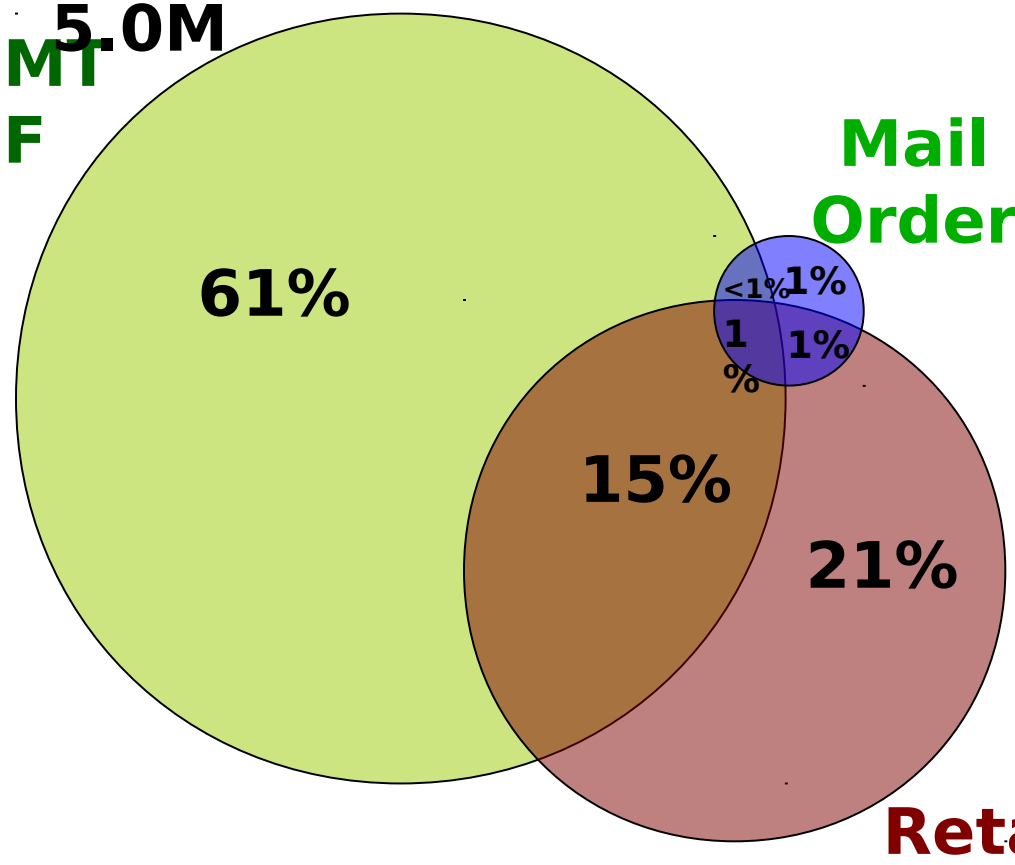


Source: PDTS

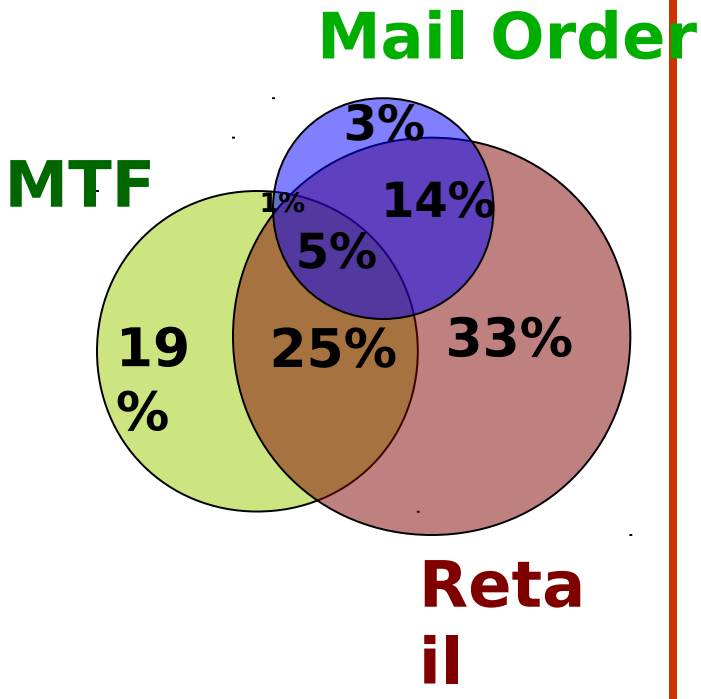
Unique Users - Point of Service

By Age, FY04

Unique Users < 65 = 5.0M

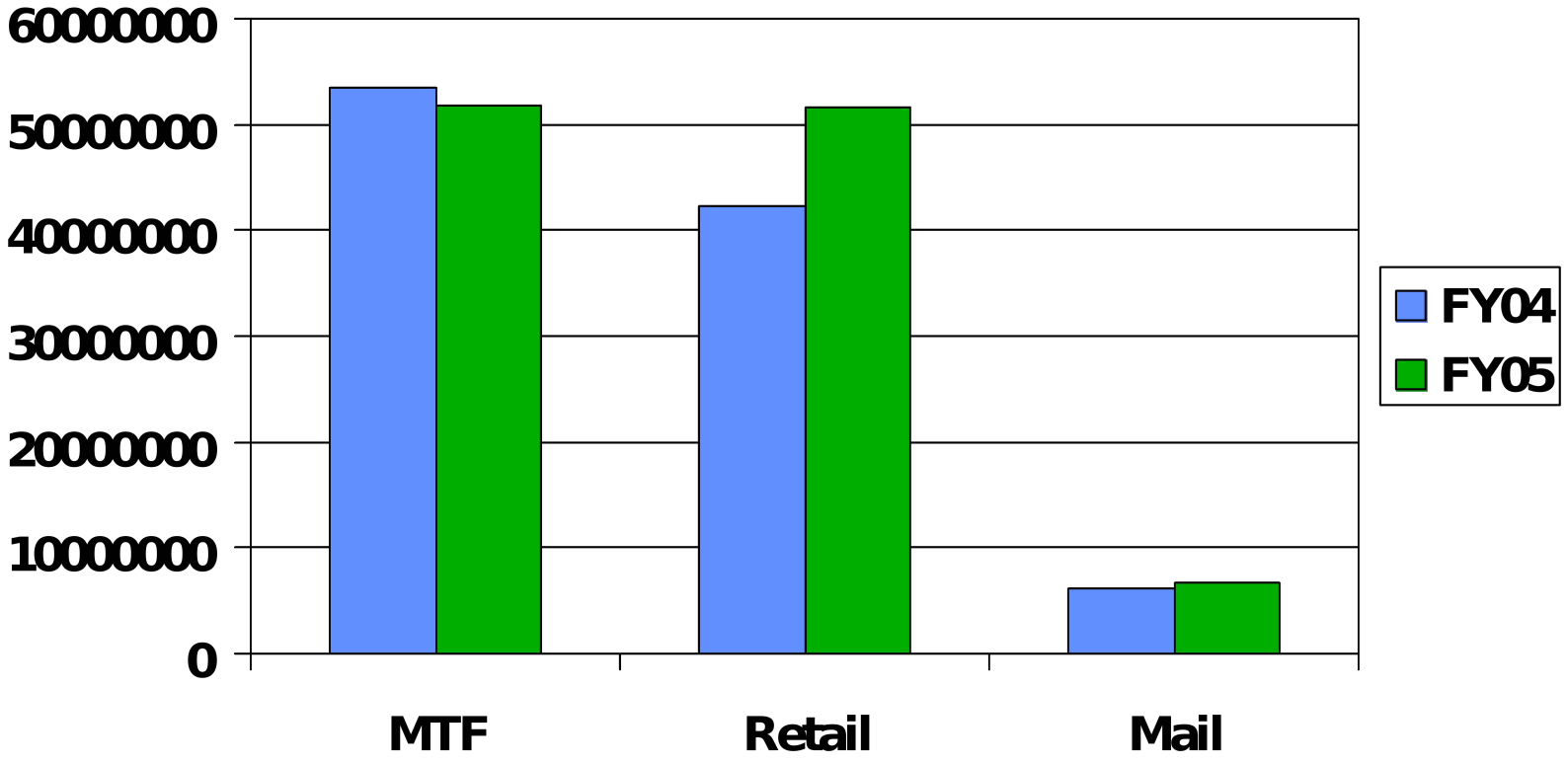


Unique Users ≥ 65 = 1.3M



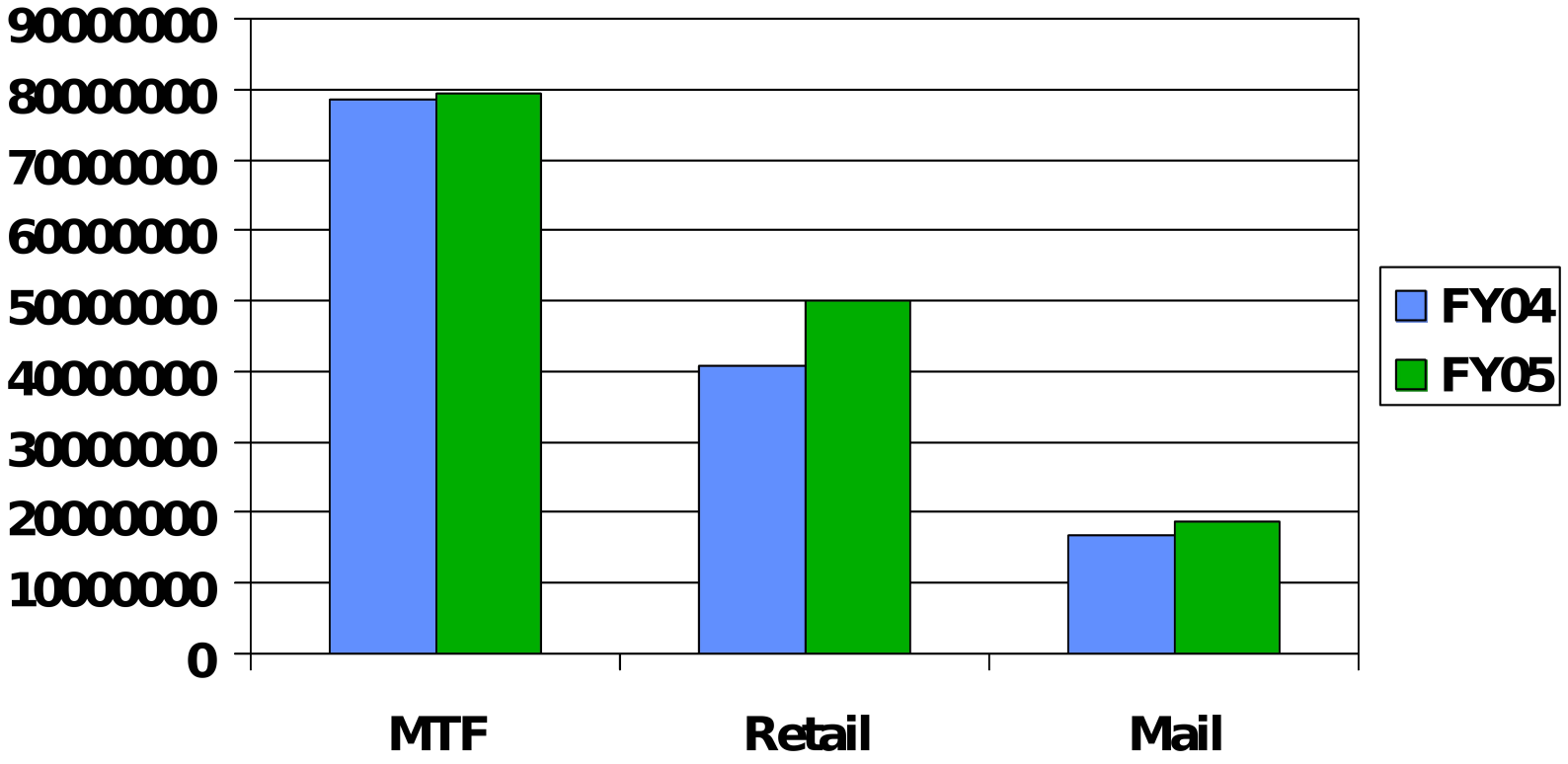
Source: PDTS

DoD Pharmacy Workload
Raw Number of Rx's Filled



DoD Pharmacy Workload

Number of Rx's Filled – 30 day Equivalents



TRICARE Pharmacy Benefit Design
Point of Service Comparison

	MTF (587 Pharmacies)	TMOP (Express – Scripts)	Retail network (Express – Scripts > 53 K Pharmacies)	Non-network
Formulary	MTF-specific (must include Basic Core Formulary drugs)	TMOP formulary	None (Open)	None (Open)
Co-pay	None	$3 generic $9 brand (≤ 90 day supply)	$3 generic $9 brand (≤ 30-day supply)	Greater of $9 or 20%* (≤ 30 day supply)
Drug price	Federal	Federal	Transition to Federal?	AWP less?

*Deductibles & point of service penalties also apply

Military Treatment Facility Pharmacy

- 536 DoD Dispensing Pharmacies in 121 MTFs
- Beneficiaries have access to prescriptions without co-pay
- Formulary composed of Basic Core Formulary plus MTF specific additions
- Least costly option to patient
- Least costly point of service for DoD
- 47% Rx workload performed at MTF
- 30% of dollars spent*

*Does not include inpatient costs

TRICARE Mail Order Pharmacy

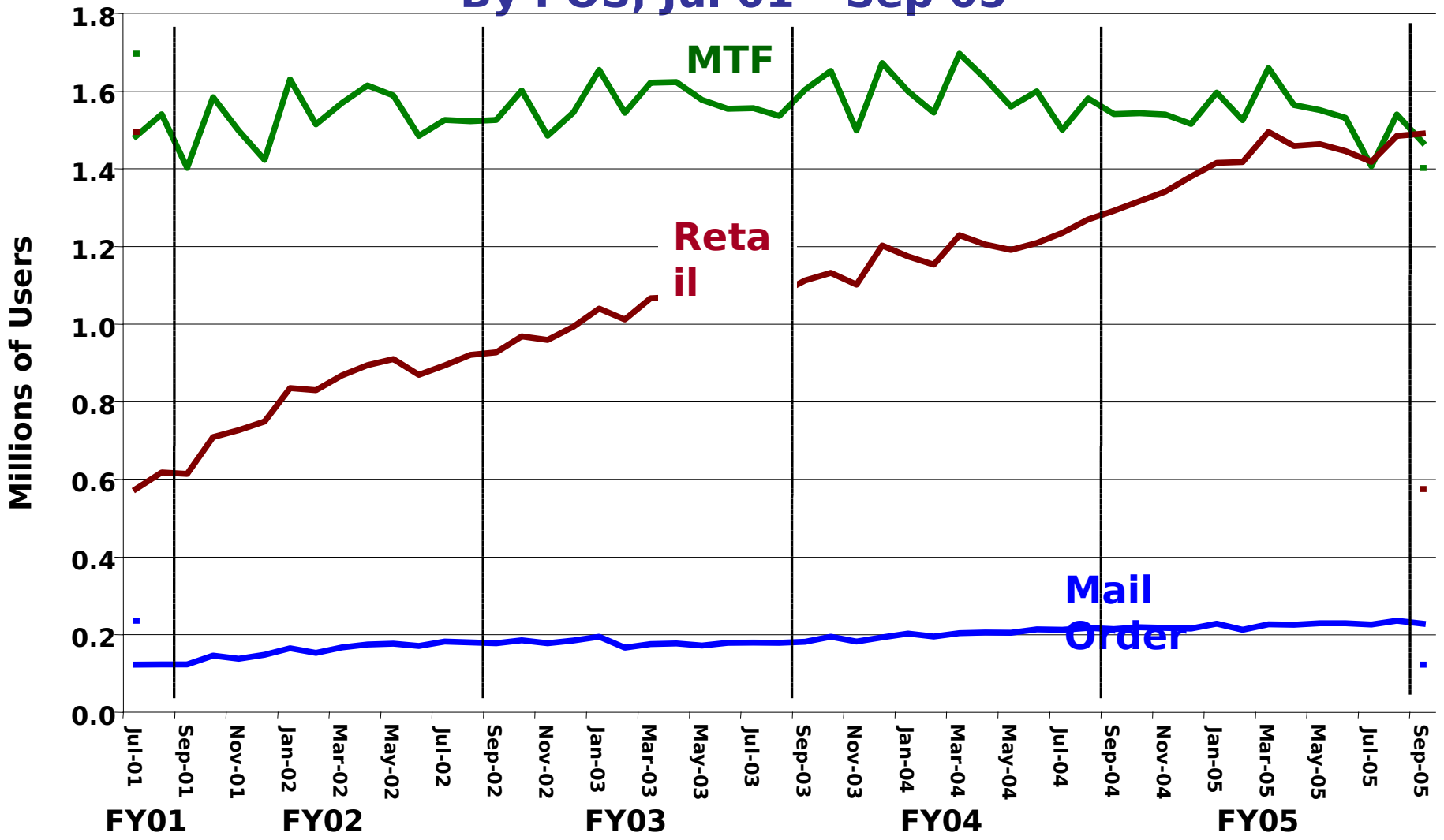
- TMOP Contract awarded to Express Scripts, Inc. 11 Sep 02
- Services began 1 Mar 03
- Services via state-of-the-art facility in Tempe, AZ dedicated to DoD workload
- Product replenishment through Prime Vendor (McKesson) at Federal Pricing
- DoD Pharmacist as Contracting Officer Representative
- Largest commercial mail order account transfer within industry
- 6% of Rx workload performed at TMOP
- 12% of dollars spent

TRICARE Retail Pharmacy

- DoD Pharmacist as Contracting Officer Representative
- Consolidated retail pharmacy services under a single contract to optimize benefit management
- Consistent benefit across all regions
- Portability in 50 states, Guam, Puerto Rico, USVI
- Pharmacy Help Desk Services 24 x 7 x 365
- TRRx Dedicated Staff
- Over 54,000 Retail Pharmacies Now Participate
- 47% Rx workload performed at TRRx
- 58% of total dollars spent

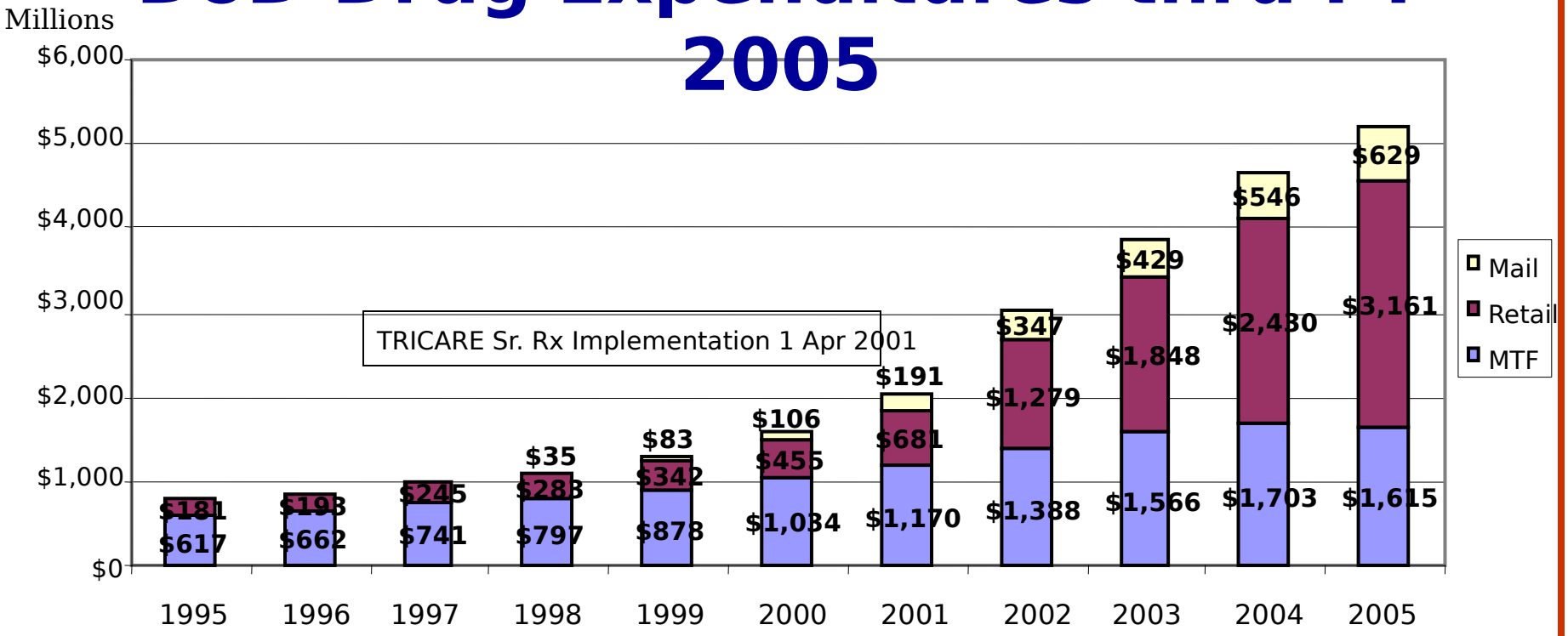
MHS Pharmacy Benefit Users

By POS, Jul 01 – Sep 05



Source: PDTS

DoD Drug Expenditures thru FY 2005



Percent increase over prior year

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Overall		7%	15%	13%	17%	22%	28%	48%	28%	22%	15%
Mail					137 %	27%	81%	82%	24%	27%	15%
Retail		7%	27%	16%	21%	33%	50%	88%	45%	32%	30%
MTF		7%	12%	8%	10%	18%	13%	19%	13%	9%	-5%

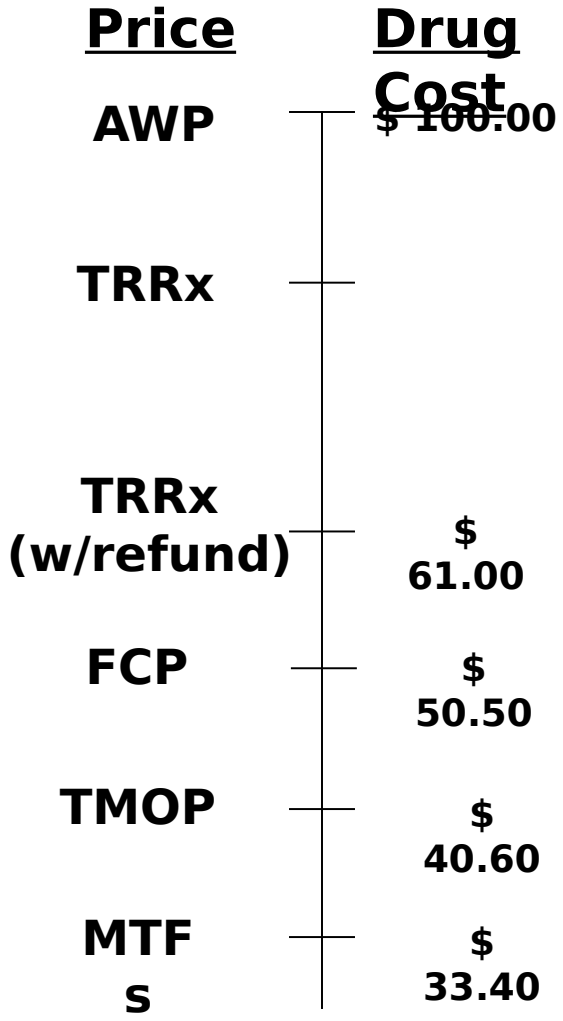
* MTF costs do not Include dispensing costs

* TRRx and TMOP are net cost to government

Source: PDTS

Brand Name Drug Acquisition Cost

(Indexed to AWP)

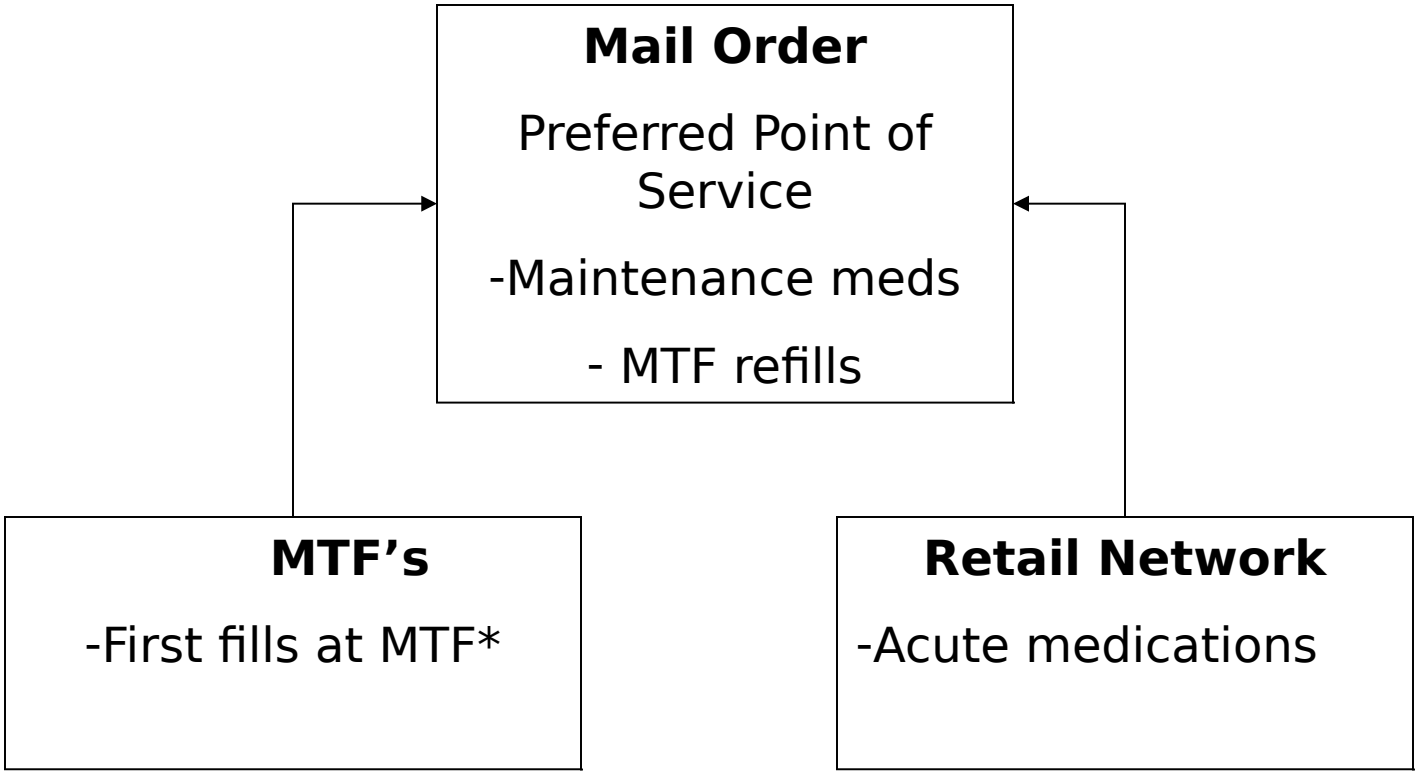


Source: PDTS, 1 Oct 04 – 30 Jun 05, Top 50 TRRx NDCs

DoD Pharmacy 2006 Program Objectives

- Focus on preserving the benefit
- TMOP is the preferred point of service
- Co-pays are structured to encourage patients to make the most efficient choice (TMOP and MTF points of service)
- Expand Utilization Management efforts and data mining
- Ensure the Tpharm contract includes the tools needed to assist DoD to reduce the increase in pharmaceutical costs

Optimized Distribution Model



*Active duty and their dependents may use MTF for both new and refills if they so choose

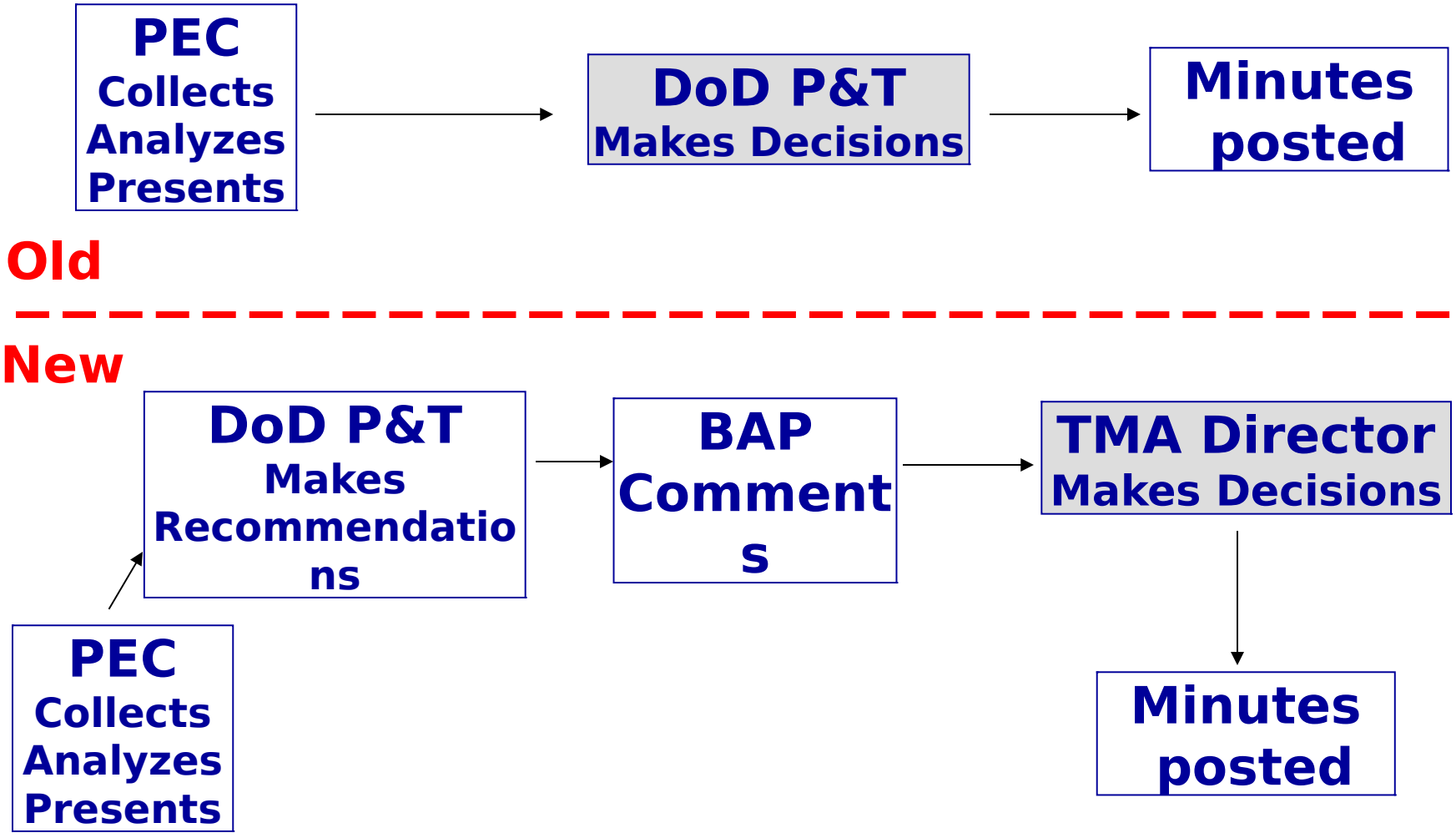
Uniform Formulary Is a Critical Management Tool

- Formulary management and tiered co-pays are industry standards and best commercial business practices used to manage a pharmacy benefit
- Historically, formulary management was not uniform across the Military Health System
  - TMOP: Had been determined by DoD Pharmacy and Therapeutics Committee (P&T)
  - Direct Care: Had been Basic Core Formulary via DoD P&T plus local Facility P&T decisions
  - TRRx: Had been an open formulary, except for those excluded by law

Key Points
Uniform Formulary

- Encourages use of more cost-effective POS
- Influences beneficiary and provider choice
- Permits tiered co-pays: Generic, Formulary, NF
- Allows beneficiaries to obtain NF drugs that are “clinically necessary” at the 2nd Tier co-pay
- Permits Prior Authorization
- Requires Non-formulary drug availability
- New DoD P&T and UF Beneficiary Advisory Panel

Department of Defense
Pharmacy & Therapeutics Committee



Committee Responsibilities

- Evaluate clinical effectiveness and cost effectiveness of pharmaceutical agents
- Recommend pharmaceutical agents for:
  - Uniform Formulary
  - Basic Core Formulary
  - Extended Core Formulary
- Medical necessity criteria for drugs classified as non-formulary (3rd tier)
- Restrictions / limitations
  - Prior authorization
  - Quantity limits
  - TRRx and TMOP

DoD P&T Committee Voting Members Your Representatives

- Physician Chairman (HA/TMA)
- Director, DoD Pharmacy Programs, TMA
- Director, DoD PEC
- Internal Medicine providers from each service
- Pediatrician from one service (Army)
- Family Practice from one service (Navy)
- OB/Gyn from one service (AF)
- One provider at large from each service
- One pharmacist from each service
- Coast Guard: one physician or pharmacist
- Department of VA : one physician or pharmacist
- TRRx COR
- TMOP COR

DoD P&T Committee Non-Voting Members

- JRCAB (readiness folks)
- TMA General Counsel
- TMA Resource Management Directorate
- Defense Supply Center Philadelphia

Beneficiary Advisory Panel (BAP)

- Operates under Federal Advisory Committee Act (FACA) and provides new level of accountability and oversight for the UF process
- Purpose is to provide beneficiaries a voice and representation in the UF process
- Members consist of nominees from major beneficiary representative organizations such as MOAA, contractors, professionals

DoD Core Formularies
(Ref: HA 04-032)

- All drug classes will fall under either
  - Basic Core Formulary (generally primary care)
  - Extended Core Formulary (all other classes, generally specialized care)
- Drugs are selected for the BCF or ECF because they provide greater value than other drugs on the Uniform Formulary
- Where clinically appropriate, MTFs should maximize the use of BCF and ECF drugs over other UF drugs

MTF Formulary Management
(Ref: HA 04-032)

- MTF Formularies must contain:
  - BCF drugs
  - ECF drugs in each ECF drug class that is included on the MTF formulary
- MTF Formularies may also contain:
  - Other UF drugs: generic (1st tier) or formulary (2nd tier)
  - Drug used solely for inpatient services
  - Medications not covered by TRICARE pharmacy benefit that are allowed to be covered by MTFs
    - OTCs, weight loss meds, smoking cessation, etc.
- MTF Formularies cannot contain:
  - Drugs classified as non-formulary on UF (3rd tier)

Non-formulary Agents
(Ref: HA 04-032)

- $22 cost share per prescription at Mail Order and Retail - no questions asked
- $9 cost share if medical necessity is validated
- Excluded from all MTF formularies
  - Available only upon approval from non-formulary special order process that validates Medical Necessity criteria established by the DoD P&T Committee
- MTF non-formulary special order process can only be used by:
  - MTF providers
  - Prescriptions written by a civilian provider to whom the patient was referred by the MTF

Chief of Pharmaceutical Operations